

FINANCIAL SERVICES AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2015

WEDNESDAY, MAY 21, 2014

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 1:45 p.m., in room SD-138, Dirksen Senate Office Building, Hon. Tom Udall (chairman) presiding.
Present: Senators Udall and Johanns.

SMALL BUSINESS ADMINISTRATION

OFFICE OF THE ADMINISTRATOR

STATEMENT OF HON. MARIA CONTRERAS-SWEET, ADMINISTRATOR

OPENING STATEMENT OF SENATOR TOM UDALL

Senator UDALL. The subcommittee will now come to order. Good afternoon.

I am pleased to convene this hearing of the Appropriations Subcommittee on Financial Services and General Government on the fiscal year 2015 budget request for the Small Business Administration and the Community Development Financial Institutions Fund.

First, I want to welcome Ranking Member Senator Mike Johanns. Others may be joining us today. We are not sure on that. But they may participate with us as we progress.

With us today are two distinguished witnesses, the new Administrator of the Small Business Administration, Maria Contreras-Sweet, and the Acting Assistant Secretary of Financial Institutions of the Treasury Department, Amias Gerety.

Thank you for your service, and I look forward to hearing your testimony.

Last week was National Small Business Week, recognizing small-business owners and entrepreneurs. Small businesses, as we all know, are the backbone of our American economy, creating two out of every three jobs in the United States. In my home State of New Mexico, small businesses make up 96 percent of all employers.

I welcome the opportunity today to conduct oversight of these two Federal entities. They play an important role in supporting small businesses, creating jobs, revitalizing distressed communities, and strengthening our economy.

The Small Business Administration does four important things. It offers training and mentorship services with partner organiza-

tions across the country. It helps small businesses compete for \$80 billion in Federal contracts. It provides \$36 billion in guaranteed loans to help small businesses start up and grow, and another \$1 billion in direct loans to help small businesses rebuild after natural disasters.

The Community Development Financial Institutions (CDFI) Fund at the Treasury Department also provides valuable support to financial institutions that serve distressed communities and to help develop these underserved areas. It supports over 800 CDFI institutions across the country with financial assistance, tax credits, and a new bond program. The CDFI Fund was awarded \$1.7 billion in financial assistance for community development organizations and \$33 billion in tax credits.

The Small Business Administration (SBA) and CDFI Fund are crucial for new entrepreneurs needing help with creating a business plan. For well-established businesses, it is crucial because they are still struggling to recover from the economic crisis and need help with credit.

These programs help entrepreneurs open grocery stores in neighborhoods without healthy food options. They help new homeowners afford their first homes. And together, the SBA and the CDFI Fund provide access to capital, and they leverage funds to help grow our economy and create new jobs.

The fiscal year 2015 budget request for the SBA is \$865 million, a decrease of \$64 million from the fiscal year 2014 level. In large part, this reduction is the result of a stronger economy with small-business owners less likely to default on their federally guaranteed loans, saving taxpayer dollars.

However, there are the reductions that are troubling. The request eliminates the State Trade and Export Promotion program, a program that helps small businesses increase their exports.

As a Senator from a border State, I know firsthand how such programs can help an economy grow.

Similarly, the total request for the CDFI account is \$225 million. That is slightly less than the fiscal year 2014 level. With this total, the request eliminates the Bank Enterprise Award program, a program that provides financial incentives to FDIC-insured banks to increase their investments in distressed communities.

I look forward to hearing from both witnesses on why these reductions were requested.

Both agencies have also requested to extend programs that help provide access to capital that is not available on the private market.

SBA's 504 loans provide credit for small businesses to purchase real estate and equipment. The budget proposals to allow 504 loans to be used to refinance commercial mortgages so small-business owners can lock in low interest rates and free up resources to reinvest in their businesses, helping them get back on their feet.

The CDFI bond program currently provides \$750 million in 30-year bonds to CDFIs, which are then leveraged to community investors to support development. The budget proposes to continue and increase this bond program for another year.

Both proposals would provide credit to reinvest in our communities at no cost to the taxpayer. I look forward to hearing from

these witnesses about the resources they need to do their jobs and how the subcommittee can help to support their vital missions and help this recovery reach Main Street, which I think should be an important focus of this hearing.

I now turn to my distinguished ranking member, Senator Mike Johanns, for his opening comments.

STATEMENT OF SENATOR MIKE JOHANNS

Senator JOHANNS. Mr. Chairman, thank you for calling this hearing today.

To our witnesses, welcome. We are glad to have you here. I look forward to your testimony. I look forward to testimony about the Small Business Administration and other efforts to promote economic growth in our Nation.

The American economy is still facing rocky times. Unfortunately, I believe many current policies are hindering rather than helping growth. We especially need to do more for our country's small businesses. In States like mine, and across the country, they are the backbone of the economy and represent the majority of all new jobs created over the last decade.

When I meet with small businesses in business roundtables and that sort of environment, it doesn't take very long before they are talking to me about regulatory reform and the need for that. An uncertain regulatory environment affects lenders and small-business owners.

I constantly hear from financial institutions all over Nebraska about how correct regulatory burdens and ever-changing rules are negatively affecting availability and access to credit. Businesses have to have capital to grow. They have to have capital to expand, to create jobs, so we need to ensure that the Government is not throwing up roadblocks in terms of capital development.

The SBA has a critical mission in our Nation, providing a helping hand to small businesses through guaranteed and direct loans. SBA also does important work to help businesses, homeowners, and communities affected by disasters.

We have, unfortunately, seen the unbridled hand of Mother Nature affect communities in Nebraska. Just 10 days ago, tornadoes devastated the areas of Beaver Crossing, Sutton, Nebraska, Cordova, and elsewhere. In just one example, 1,200 Nebraskans volunteered, though, to help with cleanup in a community of 400 people. What a remarkable response.

It signifies the true character of a great State. But that does not mean these folks who lost everything won't need some help in terms of loans from the SBA. They need that to get back on their feet.

I have been in close contact with the Governor and others in the State. I have every indication that a request will be forthcoming, probably this week. And I know that the SBA will very carefully, attentively, and responsibly look at the request. These good people need your help.

These folks had a rough Mother's Day, and I am hopeful that we can get them appropriate assistance quickly.

On the CDFI program, the President's budget request proposed a slight reduction for the program. While I appreciate the efforts

to hold down spending, I do question some of the rearranged priorities in this CDFI account.

For instance, the President's budget zeroed out the bank enterprise award program in order to finance increases to the healthy foods financing program. So there are instances where I will have some questions that I would like to have answered today.

I would say that both of these agencies have very worthy goals. The job of both agencies is to generate economic growth. Given our Government's fiscal restraint, we must carefully review every agency budget to ensure that taxpayers are receiving the best value for the dollar.

I look forward to hearing from our witnesses about the efforts they are making to work with small businesses and community lending institutions to ensure that these programs are having an impact in both urban and rural America.

Mr. Chairman, again, thank you for calling this hearing. I look forward to the testimony.

Senator UDALL. Senator Johanns, thank you for very much for that opening statement.

Administrator Contreras-Sweet, I invite you to present your remarks on behalf of the Small Business Administration.

SUMMARY STATEMENT OF HON. MARIA CONTRERAS-SWEET

Ms. CONTRERAS-SWEET. Thank you, Mr. Chairman. And thank you, Ranking Member Johanns, and the distinguished members of the subcommittee. Thank you for this opportunity to testify before you today.

We appreciate your ongoing leadership and your support for the SBA as we work to assist the entrepreneurs who are so critical to economic growth and local job creation. We all know that they create right now two out of three new jobs, and they employ half of the private sector workforce. So it is important, the work that we are doing.

I have been on the job, I am pleased to say, for about 6 weeks now, 38 days to be precise. And I have traveled across the country to meet with our core constituencies, meaning the small-business owners, veteran entrepreneurs, SBA lenders, procurement officials, exporters, and victims of the devastating mudslide in Washington.

I can tell you that at every stop, I have heard powerful testimony about how SBA has been a critical force in helping our small businesses succeed.

Again, I want to thank this committee, in particular, for enabling SBA to increase access to capital, to counseling, and to contracts, and, of course, to disaster assistance for small businesses throughout our country.

This budget request gives me the tools I need to pursue three core goals: number one, to expand access to capital to create more quality jobs; two, to embrace an inclusive vision for SBA; and three, to ensure our programs are giving taxpayers a strong return on their investment, a real bang for their buck.

With respect to the first goal, to create jobs through our loan programs, last year was the third straight year that SBA supported over \$29 billion in lending to more than 47,000 small businesses.

We also assisted 46,000 businesses and individuals through \$2.8 billion in disaster loans.

For fiscal year 2015, SBA is requesting an appropriation of \$710 million plus an additional \$155 million for our disaster assistance program. This request would enable us to guarantee loans totaling \$36.5 billion over the next year, and it would help us facilitate access to \$80 billion in Federal contracts for our small businesses.

We are also requesting full funding for disaster loan assistance, as we continue to make process reforms to ensure that homeowners, renters, and businesses have access to rapid SBA assistance when they need us the most.

We have dramatically reduced our subsidy for the 504 loan program down to \$45 million. And for the second year in a row, SBA is requesting no credit subsidy for the 7(a) loan program.

Overall, our fiscal year 2015 request represents a \$64 million reduction because of the subsidy decrease, as you aptly pointed out.

These two lending programs, both 7(a) and 504 together, will support an estimated 650,000 jobs for fiscal year 2015.

This budget also seeks authority to extend 504 refinance lending. The 504 refi helps entrepreneurs unlock equity that they already own in their businesses. A restructured loan under 504 refi means a better rate on long-term debt, allowing owners to use their equity to create jobs and to grow.

Before expiring at the end of fiscal year 2012, the 504 refi supported \$5.5 billion in lending over 2 years. And the good news is, again, this request is at zero subsidy cost to the taxpayer.

In terms of the next core value, in terms of an inclusive vision for entrepreneurship, this budget would help SBA get more loans into the hands of entrepreneurs from diverse backgrounds. And toward that end, we encourage our lending partners to approve more small-dollar loans.

SBA is once again setting fees to zero under our 7(a) loans under \$150,000.

This budget would allow us to continue working with our resource partners to counsel and train more than 1 million small-business owners annually.

To that end, we are seeking funding for our nationwide network of Small Business Development Centers (SBDCs), our Women's Business Centers (WBCs), our Veteran's Business Outreach Centers (VBOCs), and our volunteer SCORE counselors. Each year more than 250,000 servicemembers transition out of the Armed Forces. Our Boots to Business program allows them to continue to serve their country and become job creators.

We are requesting \$7 million to meet the Department of Defense's request to train transitioning servicemembers at more than 200 installations worldwide. We are making it easier for veterans to access capital by reducing or eliminating their fees on certain SBA loans.

We are also investing more in our Native American programs, working in 84 communities across America to facilitate new business opportunities for this underserved population. Through our 8(a) program, we have helped native entrepreneurs and tribal businesses secure more than \$10 billion in Government contracts in fiscal year 2012.

Finally, a return on investment for the taxpayer, in terms of ensuring that they are getting the maximum Return on Investment (ROI), the SBA continues to focus on rooting out waste, fraud, and abuse in contracting and lending programs. Since 2008, SBA has suspended and debarred more companies and individuals for abusing SBA programs than in the previous 10 years combined.

I am committed to ensuring that Federal dollars go to deserving small businesses that play by the rules.

At the same time, we have tightened our belts within our own operations, saving \$600,000 in rent by moving our DC district office, reducing our fleet expenses by more than 9 percent, and reducing SBA travel by 25 percent over fiscal year 2012 levels.

Our fiscal year budget ensures that America's small businesses have the resources and the tools and the training to realize their potential, strengthen our economy, grow communities, grow jobs, and grow America.

PREPARED STATEMENT

With that, I thank you. I thank the subcommittee for its leadership, for its support for small businesses. And I would be delighted to take your questions at the appropriate time.

[The statement follows:]

PREPARED STATEMENT OF MARIA CONTRERAS-SWEET

Chairman Udall, Ranking Member Johanns, and distinguished members of this subcommittee, thank you for this opportunity to testify today.

We appreciate your ongoing support for the Small Business Administration (SBA) as we work to assist the entrepreneurs who are so critical to economic growth and local job creation.

I've been on the job for 6 weeks now. I've traveled across the country to meet with our core constituencies: small business owners, veteran entrepreneurs, SBA lenders, Certified Development Companies (CDCs), procurement officials, exporters, and victims of the devastating mudslide in Washington State.

At every stop, I've heard powerful testimonials about how SBA has been a critical force in helping our small businesses succeed. We're a small agency with a big mission. We call it "3 Cs and a D"—providing access to capital, counseling, contracts and disaster assistance. Our fiscal year 2015 budget will help us fulfill that mission and support the entrepreneurs who are creating most of the new jobs in America.

Last year was the third straight year that the SBA supported over \$29 billion in lending to more than 47,000 small businesses. We also assisted more than 46,000 businesses and individuals through \$2.8 billion in disaster loans.

For fiscal year 2015, the SBA is requesting an appropriation of \$710 million, plus an additional \$155 million for our disaster assistance program.

This request would enable us to guarantee loans totaling \$36.5 billion over the next year and help us facilitate access to \$80 billion in Federal contracts for small businesses.

This budget request gives me the tools I need as Administrator to pursue three core goals: expand access to capital to create more quality jobs; embrace an inclusive vision for the SBA in which our borrowers better reflect the geographic and socioeconomic diversity of America; and ensure our programs are giving taxpayers a strong return on their investment—real bang for their buck.

It would allow us to work with our resource partners to counsel and train more than 1 million small business owners. To that end, we're seeking full funding for our Small Business Development Centers, Women's Business Centers, Veteran's Business Outreach Centers and our national network of SCORE chapters and volunteer mentors.

We're also requesting full funding for disaster loan assistance as we continue to make process reforms to ensure that homeowners, renters, and businesses have access to rapid SBA assistance when they need us the most.

We've dramatically reduced our subsidy for the 504 loan program down to \$45 million, and for the second year in a row, the SBA is requesting no credit subsidy

for the 7(a) loan program. Overall, our fiscal year 2015 request represents a \$64 million reduction because of the subsidy decrease.

Our borrowers report that these two lending programs—7(a) and 504—together have supported more than 650,000 jobs.

This budget seeks authority to extend 504 Refinance lending. 504 Refi helps entrepreneurs unlock equity they already own in their businesses. Restructuring a loan under 504 Refi means better rates on long-term debt, allowing owners to use their equity to create jobs and grow.

504 Refi supported \$5.5 billion in lending over 2 years when it was originally authorized, but it expired at the end of fiscal year 2012. This is a zero subsidy request. The tremendous benefits of reinstating this program would come at zero subsidy cost to the taxpayers.

Each year, more than 250,000 servicemembers transition out of the armed forces. Our Boots to Business program allows them to continue to serve their country as job creators. In fact, on my very first day at the SBA this week, I met with a group of these heroes who've started their own businesses.

We're requesting \$7 million to meet the Department of Defense's request to train transitioning servicemembers at more than 200 installations worldwide. We're also making it easier for veterans to access capital by reducing or eliminating their fees on certain SBA loans.

This budget will help SBA get more loans into the hands of entrepreneurs from diverse backgrounds.

Toward that end, the SBA is once again setting fees to zero to encourage our lending partners to approve more 7(a) loans under \$150,000.

We're also investing more in our Native American programs, working in 84 communities across America to facilitate new business opportunities for this underserved population. Through our 8(a) program, we helped Native entrepreneurs and tribal businesses secure more than \$10 billion in government contracts in fiscal year 2012.

Finally, the SBA continues to focus on rooting out waste, fraud, and abuse in our contracting and lending programs.

Since 2008, SBA has suspended and debarred more companies and individuals for abusing SBA programs than in the previous 10 years combined. I have a zero-tolerance policy for these and I am committed to ensuring that Federal dollars go to deserving small businesses that play by the rules.

At the same time, we've tightened our belts within our own operations. The SBA is saving \$600,000 in rent by moving our DC office into our SBA national headquarters. We've reduced our fleet management expenses by more than 9 percent through reductions in our fleet. We've invested in new equipment that will save us a half-million dollars in copying expenses over the next 5 years. And we've reduced SBA travel by 25 percent over fiscal year 2012 levels.

In closing, I would like to share something Federal Reserve Chair Janet Yellen said last Thursday when she addressed small business leaders from all 50 States during National Small Business Week: "America has come a long way since the dark days of the financial crisis, and small businesses deserve a considerable share of the credit for the investment and hiring that have brought that progress. Although we have come far, it is also true that we have further to go to achieve a healthy economy, and I am certain that small businesses will continue to play a critical role in reaching that objective."

Our fiscal year 2015 budget ensures that America's small businesses have the resources, tools and training to realize their potential and strengthen our economy. With that, I want to thank this subcommittee for its leadership and support of small businesses, and I am happy to take your questions.

Senator UDALL. Thank you very much for your testimony.

Mr. Gerety, please present your testimony on behalf of the Treasury Department.

DEPARTMENT OF THE TREASURY

OFFICE OF FINANCIAL INSTITUTIONS

**STATEMENT OF AMIAS GERETY, ACTING ASSISTANT SECRETARY FOR
FINANCIAL INSTITUTIONS**

Mr. GERETY. Thank you, and good afternoon, Chairman Udall, Ranking Member Johannis, and other members of the subcommittee. Thank you for inviting me to speak in support of the President's fiscal year 2015 budget request for the Treasury Department's Community Development Financial Institutions Fund, or CDFI Fund.

I would like to start by expressing my appreciation to the subcommittee and to Congress for its long history of support for the CDFI Fund, and by requesting your continued strong support for its critically important mission.

The 2015 budget requests \$225 million for the CDFI fund's flagship program, the CDFI program, which spurs economic growth and increases access to capital in low-income communities; for the Healthy Food Financing Initiative, which supports the growth of businesses that increase access to affordable, healthy food in low-income communities; the Native American CDFI Assistance Program, which increases access to credit, capital, and financial services in Native American communities; and resources for the administration of the CDFI Fund.

The budget also proposes a 1-year extension of the CDFI bond guarantee program, which provides a source of long-term capital to financial institutions that support lending in underserved communities.

The CDFI Fund programs create economic growth in communities often considered too risky for mainstream financial institutions. Let me offer you an example from a business I visited in New Orleans earlier this month.

Circle Foods is a grocery store that opened in 1939, and was New Orleans' first African-American owned and operated grocery store. In 2005, it was heavily damaged by Hurricane Katrina, and for 7 years, the owner tried to secure financing to renovate and reopen his business, but he was unable to find any willing investors and lenders.

In 2012, Hope Credit Union, a leading CDFI serving the Midsouth, provided Circle Foods with financing through a partnership that included the city of New Orleans' fresh food retail initiative. And this year, a new 22,000-square-foot Circle Foods reopened and is now providing access to fresh produce and affordable food.

In addition, the grocery store has created 62 new jobs, the majority of them filled by people who live in that community.

The President's 2015 budget reflects a careful balance of savings proposals and targeted investments in key priorities. Continued

strong funding is needed if the CDFI Fund is to be able to continue its critical work, generating new economic opportunity where it is needed most.

PREPARED STATEMENT

Mr. Chairman, this concludes my formal statement, and I will be happy to answer any of your questions. Thank you very much.
[The statement follows:]

PREPARED STATEMENT OF AMIAS GERETY

INTRODUCTION

Good afternoon Chairman Udall, Ranking Member Johanns, and distinguished members of the subcommittee. Thank you for inviting me to speak today on behalf of the Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund) and in support of the President's fiscal year 2015 budget request. I would like to start by expressing my appreciation to this subcommittee and to Congress for its long history of support for the CDFI Fund.

During my tenure at Treasury it has always been an honor to work with the dedicated men and women at the CDFI Fund. They're talented public servants who are focused on strengthening our country and they performed with excellence under quite difficult conditions over recent years. So I want to thank them for their service and commitment.

The President's fiscal year 2015 budget requests your continued strong support for the CDFI Fund and its critically important mission: To increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States. As a vital component of the Treasury, the CDFI Fund is closely aligned with Treasury's core priority of promoting domestic economic growth.

In fiscal year 2015 the CDFI Fund requests \$224.9 million. This is slightly below the fiscal year 2014 enacted level. The budget includes:

- \$151.3 million for the CDFI Fund's flagship program, the CDFI Program, which spurs economic growth and increases access to capital in low-income communities;
- \$35 million for the Healthy Food Financing Initiative (HFFI), which supports the growth of businesses that increase access to affordable, healthy food in low-income communities;
- \$15 million for the Native American CDFI Assistance Program, which increases access to credit, capital, and financial services in Native communities; and
- \$23.6 million for administration of the CDFI Fund.

The budget also proposes a 1-year extension of the CDFI Bond Guarantee Program, which provides a source of long-term capital to financial institutions that support lending in underserved communities.

The CDFI Fund's programs create economic growth in communities often considered too risky for mainstream financial institutions. The CDFI Fund accomplishes much of its work through a nationwide network of over 850 certified Community Development Financial Institutions, or CDFIs. CDFIs are mission-driven financial institutions that are dedicated to community development and provide financial products and services for businesses, consumers, affordable housing developers, and community service providers. CDFIs fill a critical gap in the financial industry by serving markets that are historically underserved and by providing the economic development expertise and specialized financial products and services that these communities urgently need. CDFIs provide loans for small businesses and job creation; finance the development of affordable housing for low-income Americans; support community-based social service organizations and create high-quality community facilities; and provide retail banking services to the unbanked and others often targeted by predatory lenders.

When I was in New Orleans earlier this month, I had the opportunity to see firsthand how CDFIs are providing critically needed financing for communities most in need. One of the sites I visited was Circle Foods, a grocery store that opened in 1939 and was New Orleans' first African American-owned and -operated grocery at a time when African-Americans were not allowed to shop in other parts of the city. In 2005, Circle Foods was heavily damaged by flooding in the 7th Ward caused by Hurricane Katrina. For years, the owner tried to secure financing to renovate and reopen the store, but was unable to find any willing lenders and investors.

That changed in 2012, when Hope Credit Union, a leading CDFI serving the Midsouth, provided Circle Foods with financing through a partnership that included the City of New Orleans' Fresh Food Retail Initiative. Thanks to Hope Credit Union, a new 22,000-square-foot Circle Foods reopened earlier this year and is now providing access to fresh produce and affordable food in the 7th Ward. In addition, the grocery store has created 62 new jobs, the majority of them are filled by people who live in the local community. And Hope Credit Union soon will open a branch within the new Circle Foods that will provide convenient access to financial services and give people in the community a reliable, affordable alternative to the payday lenders that moved into the Ward following Hurricane Katrina.

This story is just one of many examples of the way that CDFIs are helping to meet critical needs in underserved communities. CDFIs all across the Nation are truly making a difference.

THE CRITICAL ROLE OF THE CDFI FUND

One of the main factors that makes the critical work of CDFIs possible is this subcommittee's support of the CDFI Fund.

CDFIs take a variety of forms. There are CDFI loan funds, credit unions, community banks, and venture capital funds. There are small local and regional CDFIs that focus on serving particular communities, as well as large national CDFIs with offices in several States and cities. But all CDFIs share a commitment to stimulating economic and community development in distressed communities. These organizations have decades of experience providing financial products and services that offer the people they serve a way to enter the financial mainstream and build successful, productive lives.

The CDFI Fund is dedicated to expanding the capacity of these invaluable organizations, and it accomplishes that in two main ways: by certifying CDFIs and by providing a variety of financing and capacity building programs for CDFIs.

CDFI CERTIFICATION

To be eligible for most of the CDFI Fund's programs, any financial institution must be certified as a CDFI in order to participate in our programs. In addition, formal certification of a CDFI is important to many prospective financing partners, including banks and foundations. To be certified, a CDFI must meet a strict set of criteria, including having a primary mission of community development and serving a target market that meets at least one of the CDFI Fund's definitions of a distressed or low-income community. One common type of target market is a census tract that has a poverty rate of at least 20 percent, or a median family income at or below 80 percent of the statewide or metropolitan average.

In 2013 the CDFI Fund undertook a formal process to recertify all existing CDFIs whose most recent certification was more than 3 years old. This process was both an investment in the integrity of the certification status for organizations and a way to position the CDFI Fund for the future. During fiscal year 2013, the CDFI Fund recertified 425 CDFIs and certified 76 new CDFIs. Today, there are over 850 certified CDFIs headquartered in all 50 States and the District of Columbia, as well as in Guam, Puerto Rico, and the U.S. Virgin Islands.

PROGRAMS AND INITIATIVES

In addition to certifying CDFIs, the CDFI Fund provides programs to support them. The oldest of these is the Community Development Financial Institutions Program (CDFI Program), through which the CDFI Fund provides financial assistance awards and technical assistance awards to enable CDFIs to expand their services and to build their technical capacity. Over the years, the demand for CDFI Program awards has continued to grow. For the fiscal year 2014 award round, the CDFI Fund received 336 applications requesting \$393 million in funding, which was nearly three times the \$146.4 million available through the program.

Within the CDFI Program, the CDFI Fund administers the Healthy Food Financing Initiative (HFFI), an innovative interagency program created to address the problem of food deserts in underserved communities. An estimated 23.5 million Americans lack convenient access to healthy food. Through the HFFI, the CDFI Fund provides flexible financial and technical assistance awards to CDFIs that invest in businesses that increase access to healthy food in low-income communities. In fiscal year 2014, the CDFI Fund received applications from 33 eligible organizations requesting \$85 million through the HFFI, almost four times the \$22 million available.

Another program is the Native American CDFI Assistance Program (NACA Program). As a part of the CDFI Fund's Native Initiatives, the NACA Program pro-

motes economic opportunity in Native communities that lack adequate access to affordable financial products and services by providing financial and technical assistance awards to CDFIs that focus on serving Native American, Alaska Native, and Native Hawaiian communities. The Native Initiatives also include specialized training programs to help CDFIs expand their capacity to serve Native communities. Since the NACA Program's inception in 2001, the number of certified CDFIs that serve Native communities has increased from 7 to 68. For the fiscal year 2014 funding round of the NACA Program, the CDFI Fund received 46 applications requesting more than \$22 million in funding, almost double the \$12.3 million available.

The CDFI Fund's Capacity Building Initiative complements the CDFI Program, HFFI, and the NACA Program, by providing direct technical assistance and training to CDFIs. The Capacity Building Initiative helps CDFIs improve their ability to deliver financial products and services and to achieve long-term sustainability. By offering training workshops, webinars, market research, customized technical assistance, and informational resources, the Capacity Building Initiative helps CDFIs develop, diversify, and grow.

The Capacity Building Initiative training series focuses on specialized issues of critical importance to CDFIs and the communities they serve. Among the training series presented thus far are: CDFI Capitalization; Financing Healthy Food Options; Foreclosure Solutions; Innovations in Small Business Lending; Portfolio Management; Leadership Journey for Native CDFI Growth and Excellence; Scaling up Microfinance; Preserving and Expanding CDFI Minority Depository Institutions; Financing Community Health Centers; and Strengthening Small and Emerging CDFIs.

In addition to offering these training programs, the CDFI Fund compiles training materials, webinars, and research reports that supplement the training topics and provides them in a Resource Bank on the CDFI Fund's Web site. The Resource Bank is a one-stop source for current information on topics of critical importance to CDFIs, and it is available to anyone—members of the CDFI industry and the general public alike—at no charge.

The CDFI Fund's newest program is the CDFI Bond Guarantee Program, a groundbreaking effort to accelerate community economic growth and development. The CDFI Bond Guarantee Program offers CDFIs unprecedented access to significant, long-term capital. Because Treasury fully guarantees the bonds, CDFIs can borrow for up to 30 years at an attractive fixed interest rate and use the funds to finance community development projects. Because participating CDFIs must have excellent performance histories and management and be financially capable of carrying the programs strong loan requirements, the guarantees are projected to have no cost to taxpayers. For the fiscal year 2013 round of the CDFI Bond Guarantee Program, \$500 million in guarantee authority was available. The CDFI Fund received eight guarantee applications requesting a total of \$825 million in bond guarantees. Treasury entered into agreements to guarantee and approved term sheets for bonds totaling \$325 million.

THE CDFI FUND'S IMPACT AND PERFORMANCE

CDFIs are dedicated to serving distressed and low-income communities, and the data indicate that they are doing just that. On average, 70 percent of the customers of certified CDFIs are low-income and 60 percent are members of a minority community. Moreover, the CDFI Fund strives to proportionately serve both urban and rural areas. In fiscal year 2013, 53 percent of the CDFI Program's financial assistance awardees served major urban areas, 27 percent served minor urban areas and 20 percent served rural areas. The CDFI Fund also recently released an analysis on 10 years of data provided by CDFIs on their total portfolios. The data demonstrated that 25.4 percent of loans and investments (19.2 percent of total dollars) were made in non-metropolitan rural areas by CDFIs from 2002–2012. Approximately 17 percent of Americans reside in non-metropolitan areas, so it is clear that CDFIs are giving these traditionally underserved target markets the opportunity to benefit from services that they could not receive from mainstream financial institutions.

It is also clear that these services have a tangible impact. CDFI Program award-ees reported on the most recent activities in 2012 and indicated that they had:

- Created or maintained more than 35,000 full-time jobs (up from 25,600 in fiscal year 2011);
- Originated almost 6,500 small business and microenterprise loans (up from 6,345 in fiscal year 2011);
- Financed more than 17,700 units of affordable housing (down from 24,466 in fiscal year 2011);

- Provided more than 293,000 individuals with financial literacy training and other financial education (up from 233,100 in fiscal year 2011); and
- Made more than 24,000 loans and investments totaling almost \$2 billion (up from 17,500 loans and investments totaling almost \$1.3 billion in fiscal year 2011).

In addition, all 12 of the first-round HFFI awardees reported on their first year of investments, which included 43 projects totaling \$29 million in eligible HFFI activities. Of these 43 projects, 30 were retail projects—ranging from small green grocers to large supermarkets serving low-income communities—that created 339,226 square feet of new retail space. The other 13 HFFI projects involved other activities such as production and distribution facilities needed to increase access to healthy food.

The CDFI Fund is committed to rigorous evaluations that measure the impact of its programs. In 2012, the CDFI Fund commissioned a study to examine the financial performance and social impact of its flagship CDFI Program. That study is now underway and will be completed by the end of fiscal year 2014. In addition, the CDFI Fund has begun the “Access to Capital and Credit in Native Communities” study, a follow-up to a 2001 study that looked at access to financial services in Native American, Alaska Native, and Native Hawaiian communities, and that established some of the key guidelines of the NACA Program. The study will use a combination of existing research, consultations with tribes, and focus groups to identify important economic issues in Native communities. The results of both of these studies will allow the CDFI Fund to assess its programs more effectively and to determine ways to serve low-income communities even better in the years ahead.

The performance of CDFIs speaks volumes about their strength, commitment, and ability. And that’s what the work of CDFIs and the CDFI Fund is all about. It’s about more than creating programs and providing services; these are just the means to a greater end. The work is ultimately about expanding opportunities for families and communities to reach their full potential and contribute to the Nation’s economic growth.

CONCLUSION

CDFIs have established a strong track record of leveraging the CDFI Fund’s awards with private investment. Indeed, on average, CDFI Fund awardees leverage their awards with private investment by a factor of more than 6:1, which means that the total of \$201 million in program funding requested in this budget may ultimately generate more than \$1.2 billion dollars of investment. Clearly, the funding requested offers strong potential for significant local impact at a relatively small Federal cost.

The President’s fiscal year 2015 budget reflects a careful balance of savings proposals and targeted investments in key priorities. As the numbers reflect, the CDFI Fund has been and remains one of those key priorities. Continued strong funding is needed if the CDFI Fund is to be able to continue its critical work generating new economic opportunity in communities where economic opportunity is needed most.

On behalf of everyone at Treasury and the CDFI Fund, I would like to again express our gratitude for the support of this subcommittee, and I look forward to continuing to work with you in the future.

Mr. Chairman, this concludes my formal statement, and I will be happy to answer any of your questions.

Senator UDALL. Thank you very much. And both of your full statements will be put into the record.

We are at this point now going to start 7-minute rounds of questioning. I will start out.

ECONOMIC DEVELOPMENT

To both of you, a few weeks ago, this subcommittee held a hearing on the Treasury Department, and Secretary Lew testified about the growing economy. The economy is slowly recovering from the recession. The unemployment rate is slowly improving.

But for many States, towns, and neighborhoods, including many in New Mexico, they are not yet feeling the effect of this growth, and many Americans are still looking for jobs.

For both witnesses, can you please explain how the fiscal year 2015 budget request for the SBA and the CDFI will help grow the economy and create jobs? And then how will you target underserved populations, including Native American communities, which have become some of the hardest hit communities in our country?

Ms. Contreras-Sweet, please, you can start.

Ms. CONTRERAS-SWEET. Thank you.

SBA intrinsically does just that. In terms of our entire portfolio, what we are focused on is spurring economic activity. And to that extent, I think that as we think about small businesses, and we think about their journey through entrepreneurship, as they first start to think about entrepreneurship, we want them to think about it more aggressively. So whether you are a veteran, to your point, Mr. Chairman, we want to have the Boots to Business program.

First, it starts with sort of just a general conversation about it. Then we put them through a 2-day program. We put them through an 8-week program to get them to think about entrepreneurship. So that is one way in which we do it.

But throughout our partnerships, whether it is the volunteers at SCORE or the women at the Women's Business Center, or it is in disadvantaged communities, this is what SBA is. It is our strength. We go out and we talk to people who are thinking about entrepreneurship, and we take them through a training program. We give them the tools, the tips, and the relationships that they need to help develop the right business plan.

And then after that, if it makes sense, then we introduce them to possible work. The contracting opportunities, whether it is in the Government sector through our contracting opportunities or through our American supplier initiative, where we introduce entrepreneurs to private sector opportunities, we help create jobs.

And then after that, they tell us that sometimes they need a performance bond or bid bond, so we have for the surety program.

And finally, when they are ready and they have work, we provide them the debenture, the Government guarantee to provide them the access to capital.

And so that is, if you will, the journey. The key milestones that exist in entrepreneurship, the SBA is there.

So at the end of the day, we are delighted that essentially what we are, are job creators.

Thank you very much for the question, Senator.

Senator UDALL. Thank you.

Mr. Gerety.

Mr. GERETY. Thank you. I think the issue of the growth in our economy and the disparate effects in different communities is particularly important to the CDFI Fund, which has as its mission over the last 20 years, focusing particularly on those communities, whether urban, rural, or Native American communities, that are underserved by traditional financial institutions.

Within the President's budget, we have both the core program, which includes grants, and other opportunities to support the financial capacity of CDFIs. We have two programs within that, one focused on small and emerging CDFIs and other focused on more established CDFIs.

The budget also includes specific \$15 million funding for the Native American CDFI assistance program, recognizing that Native American communities are particularly underserved. And this is part of a more than 10-year effort to develop and support both the financial and the technical capacity of Native American CDFIs, CDFIs that serve Native American communities.

I think it is also important to recognize that underserved communities are not just found in urban areas, but they are found all across this country. And as we have looked at the past 10 years of CDFI funding, we found that over 25 percent of the loans and investments that are made by CDFIs are in rural communities, which only have 17 percent of the population.

So across each of these types of communities, we are very focused on building the capacity of lenders and supporting those lenders in providing capital and job support to those institutions that are really focused on developing those communities and providing the flow of capital to small businesses, entrepreneurs, and affordable housing.

Senator UDALL. Thank you.

Senator JOHANNIS.

Senator JOHANNIS. Thank you, Mr. Chairman.

LOAN SUBSIDIES

Let me start out, if I could, Administrator, and ask you a question about the loan guarantee program. For fiscal year 2014 and 2015, the 7(a) loan program, as you know, doesn't require a subsidy. That is a good thing. We celebrate that.

However, it is my understanding that the 504 program, which guarantees loans for major assets like real estate and heavy equipment, will again require an appropriation to subsidize the cost of the loan guarantees.

What is your thought about where we go from here? Is this an area where we can reasonably expect that someday you will come in and say we don't need the subsidies for this program? I would like your thoughts on that.

Ms. CONTRERAS-SWEET. Thank you. I am delighted to have an opportunity to address that point.

As I understand, and my research has indicated, because it was an important question as I came on board, and as I have seen historically, it did not require—you remember the downturn began in 2008. And as I saw in the prior years and leading up to, I believe it was 2012, we did not require a subsidy. So there was a lag, if you will.

And then you saw that, 2011, 2012, 2013, is where we required the subsidy. So I am delighted that it flattened out first. It came on and then it flattened. Now we are seeing a dramatic decrease.

It is based on commercial real estate values. So I think that as we continue to see this coming back up, it allows for the entrepreneur to use their debt more appropriately, and make sure that they are fulfilling the terms of the SBA guaranteed loan.

So just based on the trajectory, the flattening out and now the decrease, I am hopeful that that will continue to decrease, so that you get the trajectory that you want. Then we will be able to come back to you and say we are back to a zero subsidy.

Senator JOHANNNS. Great.

AFFORDABLE CARE ACT

In testimony before the House Appropriations Committee last month, then-Acting Administrator Marianne Markowitz stated that she conducted about 30 outreach seminars on Obamacare. I will be very honest, that caught my attention. I didn't know that is what this agency should be doing.

Do you currently have Obamacare outreach programs scheduled? Are you planning on doing more of the same? Do you have staff assigned to this? Is there a budget for it?

Ms. CONTRERAS-SWEET. Thank you, Senator.

The way the counseling centers work throughout the country is that they are there to respond and to counsel small businesses about the laws, about the way programs work, and about how to grow the business. And so we are there to implement the law.

And when they come in, or we are out doing the work that we do, and they ask us about the Affordable Care Act (ACA), that is what we respond to. We respond to a panoply of questions, including the laws that they have to face and deal with.

So yes, we are out in the field, sometimes answering those questions. And we are delighted to say that when we are out in the field responding to any question that they might have, including the ACA, and we respond, we are learning that they get to know us better, they get to understand and make important decisions.

And what we have learned from that process is that entrepreneurs see their small business as family, and they are wanting to know how to provide for their families.

The ACA, fortunately, has provided them an opportunity to, in some instances, draw from a pool so they can get more competitive rates on health care. That has helped them.

And it has also helped them learn more about SBA. So in that regard, we are able to pivot and direct them to other resources that we provide to continue to help them grow and prosper.

Senator JOHANNNS. That is interesting, because I have had the opposite experience. Small businesses really are frustrated with Obamacare, very frustrated. And I have had small businesses in Nebraska tell me they won't grow past 50 because they don't want to go over the limit.

Have you ever had anybody tell you that?

Ms. CONTRERAS-SWEET. I have traveled now across the country with seven stops, and I have not had anybody share that with me.

On the contrary, they said that, in one instance, they were able, if they were below 50, that they were able to partake in the tax credit that provided them a break in order to provide for their employees.

Senator JOHANNNS. I would welcome you to Nebraska sometime, and we will get a business roundtable together, and you can hear what I have heard.

Ms. CONTRERAS-SWEET. Thank you, Senator.

Senator JOHANNNS. Yes.

Let me turn to, if I might, Mr. Gerety.

ALLOCATION OF FUNDS TO RURAL AREAS

Since its creation in 1994, the CDFI Fund has awarded more than \$1.9 billion to community development organizations, financial institutions. However, I would note that entities located in Nebraska have received grant awards totaling \$5.8 million over 20 years, 2 decades. That is three-tenths of 1 percent of the total dollar amounts of awards.

By comparison, entities in New York have received awards totaling \$250 million. California has received \$225 million. Illinois has received \$140 million.

It seems to me that the way the program is being implemented, it favors large population centers or States, and States like mine, Nebraska, kind of get what is left behind.

Tell me what is going on. Is this what you wanted to happen? Or is this an anomaly that you hope to fix?

Mr. GERETY. Senator, I think you raise a really important issue, which is the goal of the CDFI Fund is to provide access to capital, and to promote the capacity of lenders in underserved communities, wherever they are across the country.

One of the things that we have been the beneficiaries of from this subcommittee is a \$1 million line item that is explicitly focused on improving the CDFI Fund's ability to target, identify, and build capacity for underserved communities, both urban and rural.

And that is beyond just the natural mission of the CDFI Fund, which is to serve underserved communities who are underserved by mainstream financial lenders, but this is explicitly to target communities that are underserved by CDFIs.

I think one of the things that we have seen is that, and particularly in rural communities, there are real opportunities to do outreach, to build capacity, to strengthen those programs.

For example, I know working with Senator Moran, we were able to do two explicit outreach programs in Kansas to try to build up the CDFI community in that State. And I know that there are six CDFIs located in Nebraska. And we, certainly, are always looking for opportunities to build the capacity of CDFIs across the country and, in particular, to do targeted outreach where there are areas that are underserved by the CDFI community.

This is an important part of our program and something that we continue to try to prioritize.

Senator JOHANNIS. I would offer this, if you could take out the Nebraska file, and I hate to sound so parochial, but my office would be more than willing to work with you to see how we can make this program more relevant for our State. Obviously, it is not connecting much.

I don't know if that is something happening on our end of the equation or your end of the equation. That doesn't really matter to me so much as how do we fix it? How do we boost this effort? Because our natural tendency is to look at a program like this and say, gosh, it is hard to get capital in rural States. On your best day, you are competing with States that are much more populated and have greater advantages et cetera.

So we want to support these, but then 20 years into it, we look back and we say, gosh, it is doing some things for urban areas. It

is not doing much for our State. We have to rethink what we are doing here. We want to be helpful in trying to do that.

If you could do that and have somebody reach back to my office, that would be appreciated.

Mr. GERETY. Certainly, Senator, we will be glad to reach out and to continue to work with you to strengthen the CDFI programs in areas that are underserved.

Senator JOHANNNS. Mr. Chairman, I took a little liberty with my time there, but what I was thinking is maybe I would ask each witness questions and then I know we are called to a vote, maybe we submit questions in writing. It is up to you, but I would be willing to do that.

Senator UDALL. I think we should probably do that. I think we can leave here in the next 10 minutes, if we wanted to do just a short 5-minute round. That is my understanding.

Let me do one quick question, and then if you would like to.

STATE TRADE AND EXPORT PROMOTION

I just want an explanation on the State Trade and Export Promotion Program. You know the President's goal of doubling exports and all of that. This has created some real opportunity out there.

We have seen \$29 million in STEP funds, responsible for \$300 million in export. And I am just really wondering, Administrator Contreras-Sweet, what is in the budget for them to look in other places, and why has the decision been made to eliminate the program?

Ms. CONTRERAS-SWEET. Thank you so much for the excellent question, and I am delighted to speak to it.

As a former banker and now the head of the SBA, I think that one of the most important things that we should be considering is how we help our small businesses compete in an international economy. We know that 95 percent of our customers are outside of our country. And with the technological advancements, we have lowered the threshold of being able to enter international markets.

So we want to make sure that small businesses have a level playing field to get outside and to compete in those markets.

To that extent, we are now ready almost imminently, to release the Request for Proposal (RFP) for the State Trade and Export Promotion (STEP) program for this year. And so I feel a duty to assess a program than be knee-jerk and just respond and say we are going to do it again. So since it is a new program, I felt it was important to assess its efficaciousness, to examine what worked, what didn't work, and to refine it, and then come back with something that was really supportive and successful and effective for small businesses in the next budget ground.

Senator UDALL. Thank you very much for that.

Senator JOHANNNS. I will submit my questions.

Senator UDALL. Okay, we will both submit additional questions for the record.

Let me just thank you for participating today. Today's discussion has provided, I think, very helpful insights on both of your budgets for the CDFI and the SBA.

ADDITIONAL COMMITTEE QUESTIONS

The hearing record will remain open until next Wednesday, May 28, at noon, for subcommittee members to submit statements and questions to be submitted to the witnesses for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO MARIA CONTRERAS-SWEET

QUESTIONS SUBMITTED BY SENATOR TOM UDALL

MICROLOANS

Question. While SBA is well-known for guaranteeing the 7a and 504 loans that support numerous small businesses across the country, the SBA also provides \$25 million in microloans and \$20 million for technical assistance to microloan recipients. These loans, which average \$13,000, help support the needs of very small businesses, including working capital, inventory or supplies, and equipment. The budget proposes to maintain the same lending level as fiscal year 2014, at a reduced cost, because the rate of default for these loans is decreasing. The SBA is currently developing a proposed rule to modernize the program.

How will the microloan program be updated to improve access to credit for America's smallest businesses?

Answer. The SBA is exploring a number of avenues for improvement of the Microloan Program and increased access to credit for our smallest businesses. We are currently working with, industry representatives, congressional representatives, and practitioners to gather appropriate ideas and build them into a strategic approach for program improvement and increased access to capital. In addition, we are moving forward with finalizing a rule that was proposed last March; with updating the Standard Operating Procedures (SOP) manual; and with exploring avenues to increase private sector involvement.

FUNDING FOR NEW INITIATIVES

Question. The SBA provides funding for many entrepreneurial development programs, such as the Small Business Development Centers and SCORE, which provide training and mentorship opportunities for small business owners across the country. These programs have proven results—they help businesses start up, prosper and grow. Yet the fiscal year 2015 budget request keeps funding for these critical programs flat, while including significant increases two new initiatives that have not yet had any results.

Why does the budget request significant increases for the new growth accelerators and entrepreneurial education programs, while keeping funding for successful programs flat?

How do these new initiatives differ from existing programs provided through entrepreneurial development? Could these activities not be provided by existing programs?

Answer. In today's economy, it is critical that we continue to support job creation wherever there's an opportunity among our Nation's 28 million small businesses. The President's fiscal year 2015 budget proposal for SBA ensures that small businesses have the tools and resources they need to start and expand their operations and create good jobs that support a growing economy and a strong middle class. The Small Business Development Centers, Women's Business Centers, SCORE chapters, and Veteran's Business Outreach Centers—also known collectively as our resource partner network—are essential to the agency's ability to achieve these goals. As a result, we are pleased to be able to request full funding for these programs for fiscal year 2015.

As an agency, we strive to be as innovative and entrepreneurial as the small businesses we serve. Moreover, we strive to maximize our value to small businesses and ensure that we make efficient use of taxpayer dollars. Currently, millions of existing small business owners plan to grow their businesses, but they lack sufficient training in areas like accounting, market analysis, and finance. They have the will to succeed but require access to quality, targeted education and mentorship to help them create and implement strong growth plans, access capital, increase revenue, and ultimately create new jobs. Many of these businesses are located in underserved communities, where there is much need and opportunity.

The fiscal year 2015 budget request seeks to address existing gaps in assisting small businesses. For example, the initiatives supported under Entrepreneurship Education differ from the services commonly offered by our resource partners, by their intensity and the time devoted to individual businesses coupled with training and complexity and level of expertise of the management support provided. There is an expressed need to offer intensive support that focuses on the unique challenges that growing firms face, which look very different from the needs of startups. A large number of SBA's existing resource partners have built up and concentrated their expertise in training and counseling for start-up businesses, and are limited in the amount of time they are able to devote to each business. The funding for Entrepreneurship Education programs allows us to address that gap.

For example, the Entrepreneurship Education request will allow SBA to expand Emerging Leaders, which provides an intensive curriculum to existing small businesses and has a proven track record of helping these businesses grow and create jobs. Our Emerging Leaders initiative, now in its seventh consecutive year since starting in late 2007, was launched by SBA to assist existing small businesses possessing a high growth potential who are located in historically underserved communities across the United States.

Participants receive over 100 hours of in-person and out of classroom training. Through our Emerging Leaders Program we try to make use of all our assets. Our District Offices facilitate hosting the classes, and our resource partners still play a key role, which may include hosting classes, teaching sessions, identifying participants, and providing ongoing technical assistance at the conclusion of the course.

504 REFINANCING

Question. From 2010 to 2012, the 504 program allowed small businesses to use loans to refinance their commercial mortgages. This helped many small businesses in the same way that refinancing a home mortgage helped homeowners—it helped keep the doors open for many small businesses across the country. The budget requests the extension of this program which ended when the authorization lapsed in 2012. The budget proposes to reauthorize the program at \$7.5 billion per year.

What was the impact of the program while it was authorized? What are some of the success stories?

Answer. The President's budget request supports reauthorizing the 504 Refinance program, which was part of the Small Business Jobs Act of 2010 and expired at the end of September 2012. Through this successful program, 200 SBA lending partners made over 2,700 loans valuing more than \$2.5 billion. On the last day of the program in 2012, SBA had over 400 projects pending work and almost \$500 million that did not get funded. Demand still exists in the marketplace, as commercial real estate values are still depressed. By refinancing their debt to take advantage of historically low interest rates, businesses improve their cash flow, and access equity in their properties to inject into their businesses. This allows companies to retain jobs and expand by offering a favorable long-term fixed rate. The budget requests a 1 year reauthorization of the program. Since SBA is allowed under the 504 Refi program to charge an adjusted fee to cover the projected costs, this request does not require an appropriation from Congress for subsidy.

Proceeds from the 504 Refinance program assisted businesses in all ten SBA regions:

- Region I:* A grocery store was able to restructure debt and provide business expenses of \$670,000.
- Region II:* A water bottling company experienced \$1.2 million in growth due to available working capital.
- Region III:* An assisted living facility restructured debt and refinanced business expenses for three facilities.
- Region IV:* A concrete foundation company was able to purchase a new pump to improve operations.
- Region V:* A gas station finance eligible business expenses saving \$43,000 annually.
- Region VI:* A steel company financed their A/P and inventory worth almost \$1.25 million.
- Region VII:* A telecommunications firm secured a \$1.6 million 504 Refi loan for equipment modernization.
- Region VIII:* A restaurant had a balloon payment upcoming but was able to refinance to continue operations.
- Region IX:* A medical equipment supplier refinanced balloon payments due in less than 1 year.

—*Region X*: A hotel was able to secure a \$2 million loan for working capital under eligible business expenses.

Question. How would this loan compare to credit options that are available on the private market?

Answer. The 504 Refinance program provides excellent terms compared to what is available on the private market. For example, 504 Refi is unique in that it provides a fixed rate for 20 years (10 years for equipment). The private market generally won't do fixed rates for a 20 year term, but will either have variable rates or terms for a shorter period. The long-term fixed rate allows small businesses to better manage their debt, creating more stability and opportunity for job retention and creation.

LENDER OVERSIGHT

Question. Through the SBA's flagship 7a loan program and the 504 program, SBA will guarantee approximately \$36 billion in fiscal year 15. In fiscal year 2011, approximately two-thirds of the SBA guaranteed loans were made using delegated authority with limited oversight. Both the SBA Inspector General and the GAO have identified weaknesses in SBA's oversight of these lending programs and provided recommendations to create an effective oversight program.

What steps has SBA taken to improve oversight of these lending programs and implement the recommendations?

Answer. SBA understands the importance of lender oversight in administering an effective 7(a) program. SBA has made significant progress in instituting a comprehensive credit risk management program for its business loan programs. All lenders participating in the 7(a) program are continually assessed and risk rated to ensure that those considered to represent highest risk receive greatest Agency attention. In fiscal year 2013, SBA undertook approximately 24 lender supervision and enforcement actions. SBA has also suspended or debarred approximately 27 parties, including but not limited to, actions against loan agents and borrowers. SBA has developed and implemented a regulatory framework to support credit risk management, including the promulgation of lender oversight/enforcement regulations that establish the grounds and procedures for lender supervision and enforcement, lender oversight Delegations of Authority, Lender Risk Rating Standards, and Standard Operating Procedures for lender supervision/enforcement and reviews/examinations. SBA conducts lender supervision and enforcement through a separate Office of Credit Risk Management and a Lender Oversight Committee (LOC) comprised of senior Agency officials representing fiscal, credit risk, operations and legal areas.

7(a) TOTAL LOAN LIMIT

Question. SBA's flagship 7(a) loan program is one of the Federal Government's primary business loan program. Through these guaranteed loans, SBA provides up to \$5 million for up to 25 years to small businesses. Funds can be used for a variety of purposes to develop and expand small businesses. In 2013, the program supported over 483,000 jobs and 40,000 small businesses. The total loan level is currently capped at \$17.5 billion in loan authority per year. But in 2013, the SBA reached this limit.

What are your projections for the total 7(a) lending level in fiscal year 2015? Do you believe the cap on the 7(a) loan should be increased?

Answer. SBA is supportive of both the Senate Committee on Appropriations and the House Committee on Appropriations plans through their fiscal year 2015 bills to increase the 7(a) loan authorization level. Based on prior year lending trends, when SBA formulated the fiscal year 2015 budget, we estimated that a \$17.5 billion 7(a) authorization level would be sufficient to meet market demand for fiscal year 2015. However, in light of trends on fiscal year 2014 volume, SBA does believe it is prudent to increase the authorization level for fiscal year 2015. As stated at the hearing, we would like to emphasize that an increase in the authorization level would not have any subsidy cost for the taxpayer.

DISASTER ASSISTANCE (SBA)

Question. SBA provides direct loans to small businesses that are affected by natural disasters. These long-term, low-interest loans allow small businesses to repair or replace damaged property to limit the economic impact of natural disasters. The budget request for the administrative costs of these loans is decreasing by \$5 million.

How do you determine what will be needed to administer disaster assistance?

Answer. The SBA reviews historical spending trends, expected carryover balances and staffing forecasts to determine what level of funding to request for disaster assistance. The SBA continually reviews processes and implements improvements in order to enhance program delivery and achieve greater efficiency. The \$5 million reduction in the disaster administration request reflects cost reductions SBA expects to achieve through more efficient operations.

Question. Do you believe the fiscal year 2015 request is sufficient?

Answer. Absent a catastrophic disaster event or multiple major events in 2015, the fiscal year 2015 request should be sufficient.

Question. What are your balances for disaster assistance, and how long will they last?

Answer. As of May 31, the disaster administrative funding balance was \$238 million and the disaster subsidy balance was \$736 million. It is nearly impossible to predict the timing and severity of disasters, and therefore difficult to estimate how long these balances will last.

Question. How do you determine the portion of disaster funding that will be for Stafford Act disasters?

Answer. Previously, the SBA derived the Stafford Act allocation from a three-year average of loan applications processed by the Office of Disaster Assistance according to presidential and non-presidential disaster declarations. In 2014, the SBA conducted a cost study to determine the portion of overall disaster administration spending on Stafford Act disasters. The result of the study is a cost allocation model the SBA can update annually with actual spending to estimate the administrative funding needs of Stafford and non-Stafford disaster loans.

QUESTIONS SUBMITTED TO AMIAS GERETY

QUESTIONS SUBMITTED BY SENATOR TOM UDALL

CDFI BOND PROGRAM

Question. The CDFI bond program provides 30 year bonds to CDFI organizations to support additional lending for a variety of economic development efforts including—job creation, community revitalization and affordable housing. In fiscal year 2013, Congress provided \$500 million for the bond program, and then in fiscal year 2014 we provided another \$750 million. The fiscal year 2015 budget proposes to increase it again, to the authorized level of \$1 billion.

Please explain how this program is using the funds provided in 2013 and 2014, and why the budget proposes to continue and expand the program.

Answer. The Administration continues to support and expand the CDFI Bond Guarantee Program (CDFI BG Program) because it addresses a fundamental challenge in revitalizing communities, creating jobs, and expanding economic opportunity: many low-income and underserved communities require long-term, fixed-rate financing that the private market does not generally offer. According to the Carsey Institute, CDFI loan funds do not have access to long-term debt to meet market needs for longer-term financing.¹ The CDFI BG Program provides a long-term, fixed-rate source of capital so CDFIs can provide the financing communities need.

CDFIs may use bond proceeds to finance: charter schools; commercial real estate; daycare centers; healthcare facilities; rental housing; rural infrastructure; owner-occupied homes; licensed senior living and long-term care facilities; small businesses; not-for-profit organizations; and other CDFIs and similar financing entities.

In the first two rounds of the CDFI BG Program in fiscal year 2013 and fiscal year 2014, Treasury approved term sheets and executed agreements to guarantee a combined total of \$525 million. Bond proceeds are expected to finance affordable housing, charter schools, healthcare facilities, commercial real estate, and lending to not-for-profit organizations. Financing of community development projects has recently begun.

Question. Do you believe there is sufficient demand from CDFIs to support the \$1 billion level?

Answer. We believe that \$1 billion is an appropriate cap for fiscal year 2015. Congress set the \$1 billion level when it authorized the program. This level indicates to CDFIs that significant resources will be available if they make a commitment to participate in the program.

¹ Carsey Institute, "CDFI Industry Analysis Summary Report", Spring 2012, pg 12. Accessed at: <http://www.cdfifund.gov/docs/CBI/2012/Carsey%20Report%20PR%20042512.pdf>.

The \$525 million committed in the first 2 years of the program marks an encouraging start to a new and complex program. There is a promising initial level of interest and capacity, as evidenced by the four CDFIs that submitted high quality plans within a very short application period in fiscal year 2013 and the four additional CDFIs that received bond loans in fiscal year 2014.

After completing two funding rounds for the Bond Guarantee Program, we have begun to explore ways to improve administration of the program, including opportunities to address any perceived impediments for program applicants.

HEALTHY FOODS

Question. Obesity and malnutrition are widespread in this country and have been linked to major health problems, such as diabetes and heart disease. In many low-income neighborhoods across the country, there are no healthy food options nearby, making it much more difficult to adopt a healthy lifestyle. CDFI's Healthy Foods Financing program provides assistance to CDFIs to finance grocery stores, farmers markets and other healthy food options in these low-income neighborhoods. The budget proposes to increase this program to \$35 million, \$13 million more than last year.

Why does the budget propose such a significant increase for this program?

Answer. The Healthy Foods Financing Initiative (HFFI) expanded healthy food options necessary to address obesity and malnutrition. It achieved this through improved access to affordable food outlets in areas where there has been a chronic absence of such alternatives. Continued support from Congress will enable CDFIs to expand access to healthy food options in low-income communities. To date, all 12 of the first-round HFFI awardees reported on the impacts of their first year of investments. The 12 HFFI awardees initiated 43 projects totaling \$29,035,079 in HFFI eligible activities. Of these projects, 30 were retail HFFI projects with 339,226 square feet of new retail space developed from small green grocers to large supermarkets serving low income, low-access census tracts. Another 13 non-retail projects, such as production and distribution, resulted in the development of 5,073 square feet of space for eligible healthy food activities.

Question. How would the requested funds help address this national epidemic?

Answer. The Healthy Foods Financing Initiative (HFFI) is dedicated to increasing access to healthy food options in low-income urban and rural communities. Through HFFI, the CDFI Fund provides competitive awards to CDFIs that finance healthy food retail outlets in underserved communities.

CDFIs have a wealth of experience in financing grocery stores, local food processors and distributors, farmers' markets, and food co-ops. As with other CDFI Fund programs, the HFFI-Financial Assistance award is designed to help CDFIs respond to local economic market conditions in the low-income communities they serve. CDFIs may use up to 25 percent of the award to finance non-retail HFFI activities, an option especially responsive to rural areas in need of financing for food production.

BANK ENTERPRISE AWARD PROGRAM (BEA)

Question. The fiscal year 2015 budget eliminates an important CDFI Fund program, the Bank Enterprise Award program. Created in 1994, the program helps leverage CDFI dollars by supporting banks that provide lending, investment and service activities in economically distressed communities. Without the BEA program, many of these banks cannot compete for CDFI funds, and would be unable to finance development projects in low-income and distressed neighborhoods.

Why did the budget eliminate this critical program?

Answer. Treasury recognizes that the Bank Enterprise Award Program (BEA Program) provides important resources for FDIC-insured banks and thrifts to invest in underserved communities. However, in the current fiscal environment, difficult budget decisions have to be made.

The BEA Program isn't the only CDFI Fund grant program that supports FDIC-insured banks; depository institutions certified as CDFIs are also eligible to apply for the CDFI Fund's flagship CDFI Program, which will continue to provide financial and technical assistance to invest in and build the capacity of CDFI banks. This program empowers them to grow, achieve organizational sustainability, and contribute to the revitalization of their communities. In the fiscal year 2014 round of the CDFI Program, 9 percent of total applicants were CDFI-certified banks. Out of these 23 bank applicants 9 received financial assistance awards totaling \$12.2 million.

The CDFI Fund's Capacity Building Initiative also recently launched a "Preserving and Expanding CDFI Minority Depository Institutions" series to address the

unique challenges facing CDFI MDIs. This program provides advanced training and technical assistance for CDFI MDIs to build their capacity to provide community development services to their underserved communities.

Question. How would this elimination impact overall lending?

Answer. The elimination of the BEA Program is not expected to have a material impact on overall lending to markets served by CDFIs. CDFI target markets are highly correlated with eligible areas under the Community Reinvestment Act (CRA), communities historically underserved by mainstream institutions. Banks eligible to apply to the BEA Program will continue to be incentivized by CRA to invest in these communities.

In addition, due to the higher poverty level eligibility criteria, areas eligible under the BEA Program are a subset of CDFI investments areas and target markets. The CDFI Program will continue to provide financial and technical assistance to invest in and build the capacity of CDFIs which will help to mitigate the impact of eliminating this program.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

Question. Section 1206 of the Dodd-Frank Wall Street Reform and Consumer Protection Act established a grant program within the CDFI Fund to encourage financial institutions to offer affordable small dollar loans through technical assistance and loan loss reserve funds. Affordable small dollar loans would help borrowers who may otherwise turn to predatory payday loans, and this grant program can help financial institutions overcome some of the challenges that come with offering these products.

To what extent have technical assistance and loan loss reserve funds under section 1206 been clearly included in the core program Notice of Funding Availability (NOFA) since authorization in 2009? If not, how can these be included in the core program NOFA in fiscal year 2015?

Answer. Since 2007, the CDFI Program NOFA has specified that eligible uses of Financial Assistance awards include loan loss reserves to cover losses on loans made in their investment areas or target populations, which may include small dollar loans.² Since 2011, applicants are required to specify how much of their award request will be used for loan loss reserves. In fiscal year 2014, 126 applicants requested approximately \$59 million (or 17.4 percent of the total amount requested) for loan loss reserves. It is important to note, this data is prospective, based on an institution's intentions at the time of application. The CDFI Fund is unable to track at this time the amount of Financial Assistance awards received that were then used to fund loan loss reserves specifically for small dollar loans.

The Fund will explore including language in its NOFA concerning small dollar consumer lending and is open to establishing a new grant program as proposed in Section 1206 if, and when, funds are appropriated.

CONCLUSION OF HEARINGS

Senator UDALL. The subcommittee is hereby adjourned.

[Whereupon, at 2:23 p.m., Wednesday, May 21, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

²To carry out the purposes specified in the Technical Assistance application, funds may be expended for: compensation; professional services; travel; training and education; equipment; and supplies. Developing a small dollar loan program is an eligible purpose. However, data is not available on the number of applicants that request technical assistance awards to develop small dollar loan programs.